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SUBJECT: UZBEKS ANNOUNCE "MICRO-FINANCE DEVELOPMENT PROGRAM"

Classified By: CDA Brad Hanson for reasons 1.4 (b) and (d).

¶1. (U) The Government of Uzbekistan (GOU) has announced a plan to expand popular access to microcredit over the next three years. The "Micro-Finance Development Program", adopted by decree of the Cabinet of Ministers in June, recognizes the important role the availability of microcredit plays in economic development, especially in rural areas, and provides a roadmap for practical implementation of the legal framework established by three earlier laws on credit unions and micro-finance organizations. The decree envisions the eventual creation of 62 credit unions and 97 micro-lending organizations across the country and tasks the Ministries of Justice, Finance, and Labor, the Central Bank, and various commercial banking organizations with preparing the institutional infrastructure and regulatory controls needed to support the expansion of credit access and attract foreign investment assistance.

¶2. (U) The GOU's very detailed program also features a proposal to create a special bank, "Microcreditbank", to act as a clearinghouse for microcredit-designated assistance funds from international organizations. According to the plan, "Microcreditbank" will be the primary receiver for all international microcredit finances and will allocate funds competitively among domestic micro-lending organizations and supervise their use. (Note: Microcredit organizations, including several funded by USAID, had operated under the terms of a previous Cabinet of Ministers decree until it expired in 2006. Virtually all of these organizations have been forced to close as a result of GOU pressure. End Note.)

¶3. (C) Comment: The "Microcreditbank" scheme appears to represent an attempt to eliminate the presence of independent foreign micro-lending organizations in Uzbekistan without losing any of the development assistance such organizations provided. The Uzbek Government is clearly torn: the Cabinet's serious, detailed plan suggests a sincere enthusiasm for the economic potential of microcredit financing, but also a deep unease at the idea of foreign organizations distributing sums of money to private individuals without state supervision. The GOU therefore seeks to have the best of both worlds by permitting, even encouraging, micro-lending and foreign donations, yet insisting that the funds be administered and controlled by the state. Whether this arrangement will be as effective as the previous network of private lenders remains to be seen. This situation is only the newest development of a continuing pattern in which the GOU, suspicious of independent non-state organizations to the point of paranoia, forces such groups out and replaces them with government-controlled facsimiles.
HANSON